Improve the ability of state government to achieve results efficiently and effectively.
Tollgate #2

1. Map of Causal Factors
See Attachment

2. Assess the performance progress in this result area-Update (New information since Tollgate #1 only)

The Washington, D.C.-based National Policy Research Council has ranked Washington state number one in Government and number five overall in its 2004 publication, "America's Best Cities & States: The Annual Gold Guide to Leading Rankings." The guide, which combines more than 150 rankings of cities and states, also ranked Washington third in Economic Dynamism - a category that analyzes the competitiveness and performance of a state's economy - and fourth in Technology.

3. Propose high-level purchase strategies for this result area. What are the key areas where the state should take action, and how (if known at this point)?

**Implement a State Franchise Funding Model**: Implement a state franchise funding model, similar to the federal government's franchise fund pilot for agency activities that provide discretionary fee-for-service, internal service or enterprise-type operations.

Some current state internal service and enterprise type activities include the following: agency motor pools, mail rooms, print shops, facility management offices, warehouses, data centers, archives, imaging services, human resources offices, financial/accounting offices, procurement teams, lottery ticket and liquor retail sales. Other activities that could be re-structured as a fee-for-service activity (i.e. one licensing and permitting activity providing a fee-for-service to another state agency or local government) could operate under this model.

How does the federal government's franchise activity pilot model work?
Six franchise activity pilots were created as a consequence of passage of the Government Management Reform Act of 1994. They operate in five departments (Commerce, Health and Human Services, Interior, Treasury, and Veteran's Affairs) and one independent agency (Environmental Protection Agency), and vary in size, scope of service offerings, governance structure and degree to which they provide service beyond the department's jurisdiction.

The Office of Management and Budget (OMB) and the Chief Financial Officers Council (CFOC) developed business principles that serve as the operational

guidelines for franchise activities. The activities are expected to succeed without an outside subsidy or appropriation, and finance their operations solely from revenues received from business operations. Most activities had authority to retain up to four percent of their earnings to finance either periodic upgrades of their infrastructure or cope with surges and contractions of business. These retained earnings/profits would allow the business operations to be self-sustaining, and business lines would succeed or fail depending on their ability to attract and retain satisfied government customers. Customers for the franchise activities were to be government agencies within and outside of the departments or agencies in which the activities were located. The rationale for this approach is that a competitive environment would put pressure on other franchise activities and/or other government service providers to enhance service quality and or reduce the cost of services to gain a competitive advantage, or else run the risk of losing customers or going out of business altogether.

While franchise activities are expected to be competitive service providers within and outside their departments, they are also expected to follow uniform rules of prudent and transparent financial management. They are expected to undergo independent, annual financial audits, and have full cost accounting and full cost recovery for their business operations. Further more, they were encouraged to monitor customer satisfaction, set performance objectives and measures, and engage in benchmarking. Finally, they were expected to abide by all current laws and regulations dealing with compensation with other public and private sector service providers to government agencies.

Note: Information on the federal franchise fund model was obtained from the IBM Endowment for The Business of Government's book, called New Ways of Doing Business, in Chapter Three's article entitled "Franchise Funds in the Federal Government: Ending the Monopoly in Service Provision" by John J. Callahan.

What benefits has the federal government achieved through this approach?
Competition has eliminated the service monopolies in common administrative services. Duplicative services have been eliminated and economies of scale have been achieved; thereby, reducing the unit cost of administrative services over time. Agency customers are more satisfied with the services they receive and can terminate service agreements if their requirements are not met.

How would the state benefit from developing a similar model?
A franchise model institutionalizes an entrepreneurial framework, providing increased budget, service delivery and organizational flexibility. This additional flexibility will be needed to successfully implement competitive contracting. Franchise activities will need to acquire the resources, unimpeded by traditional controls, in order to meet customer's needs and remain competitive. A franchise model reduces the prevalence of duplicative administrative services through increased competition and improved service provision.

What specific guidance should POG Team #11 offer to implement this new initiative?

OFM Budget Division should develop budgetary guidelines for agencies to use in requesting a franchise funding designation for fee-for-service activities. A business plan should be included with the request that describes the activity's price and quality of service offerings, as well as containing other business plan requirements.

Designate a Policy Authority that Oversees the Franchise Approach.
While the franchise approach will promote services being provided at the lowest price by the agencies most qualified to provide them, it will not meet other state-wide goals such as accessibility to information and accountability for cost and services unless the franchises are regulated by a central policy authority. This policy authority should set standards for data collection and reporting, financial and cost accounting, common information technology architecture, facilities and asset management, and other accountability requirements to make sure that the franchises are contributing to the POG #11 goals of improving the management of state information and improving accountability in government.

Undertake an Activity-based Budgeting Pilot: OFM Budget Division, partnering with approved franchise activities and OFM Statewide Accounting, should undertake an activity-based budgeting pilot, where unit costs are developed for approved franchise fee-for-service activities. These activities would then be required to bench-mark their cost and quality of services to the private sector and other government enterprises activities.

Develop Requirements for a New Statewide Financial System: Begin development on a new statewide financial system that can fully accommodate franchise activities' financial reporting needs, as well as the financial needs of other governmental activities.

Provide Agencies with Incentives to Competitively Contract Non-Core Competencies & Allow Agencies to Seek Additional Responsibility in Core Competencies. To encourage agencies to competitively contract non-core competencies, the state should develop a variety of models that will provide incentives for agencies to shed their non-core function activities. One model would be to allow agencies to keep a portion of the savings that would accrue from shedding non-core activities and using other service providers that create efficiencies on a statewide basis.

This initiative would also offer opportunities for agencies to compete for franchise activity status for some of their core competency activities and market them as fee-for-service to other agencies. For example, the Department of Licensing may decide that licensing is a core competency, and seek to provide licensing information technology and process solutions to other state agencies that share similar functions through a fee-for-service model.

4. Provide guidance to agencies for budgets, analysis and legislation

A. **Identify operational or legal barriers to the implementation of the high-level strategies.**

Apples and Oranges: In order for the franchise model to be successful, the franchise must be able to demonstrate to their customers that they can deliver the service effectively, efficiently, conveniently, and cheaply. This requires the financial tools and systems to clearly calculate the full costs of each service activity, so the customer agency can make valid comparisons between the franchise service and whether they should continue to perform that service themselves. Agencies need to be able to make apples to apples comparisons when deciding where to receive their services.

Lack of Incentives: In addition, current budgetary practices inhibit the use of incentives as a means of changing agency behaviors. For example, if an agency has a motor pool, they may be reluctant to part with that activity for a number of reasons. However, if an incentive is available, such as retaining a portion of the savings that may accrue from the elimination of the motor pool, then agencies with a motor pool may be more willing to part with that activity because it is not part of their core mission.

Inertia: Another operational barrier is plain old inertia. It is difficult to initiate change in large organizations. While the Director may wish to make operational changes, the staff may not fully accept the need for change. Why make a change when the current system or process has been working just fine and it may disrupt the current order of things? This institutional inertia has a way of blunting the best ideas from being realized.

FTEs: Limits on FTEs is a major hurdle in promoting successful enterprises. Limitation on FTEs has been arbitrary and in some instances without clear rationale, from a business perspective. If certain agencies with enterprise functions are to be successful, the focus should be on their results. The state should focus on end result. However, the focus is often on the front-end inputs, such as limitations on FTEs and dollars. When an arbitrary limitation is imposed on an enterprise function, then it is almost impossible to maximize their result.

B. **Identify opportunities to reduce the price or improve the efficiency of current services.**

See question 3.

C. **Identify new initiatives and areas of budget focus that should be pursued based on Tollgate #1 and #2 analysis.**

Develop a Survey to Access Citizens' Satisfaction with State Government, in Collaboration with all of the Results Teams: The purpose of this survey would be to

find out how citizens would grade the state's general performance, and how citizens would grade the performance of individual Results Teams. The survey could employ open-ended questions about what citizens would most like to change about state government and each POG Results Teams. The results of the survey will give each Result Team an idea of which activities are of interest to citizens, and help shape each POG Result Team's strategies, as well as their communications plan.

New Initiative: Develop and Conduct a Team-Specific and/or Agency-Specific Survey to Assess Customer Satisfaction: The purpose of the POG Team 11 specific survey would be to obtain information from key managers (human resources, financial, information technology, logistics, and senior leaders) through a combination of survey and focus groups, about agencies' human resource, financial resource, IT resource, logistical resource and governance resource needs. POG Team 11 and the Policy Oversight Authority, to formulate better strategies during future budget development and POG deliberations, will use this information.

The second survey, an agency-specific customer satisfaction survey could be designed to provide an overall customer satisfaction grade for POG Team 11. In order to roll-up the customer satisfaction score of more than one agency, a set number of the questions for each agency would need to be standardized.

D. Identify specific research projects and budget proposals that may aid the team's development of the detailed purchase plan in the fall.

Enterprise-wide solutions, by their very nature, don't lend themselves well to agency-by-agency budget proposals. The POG Team 11 believes that information and initial recommendations should be distributed to the agencies regarding this goal area, but that further work needs to be done by interagency teams to develop specific enterprise-wide proposals that can be handed off to either all agencies or selected "lead" agencies to develop into budget decision packages.

POG Team 11 proposes to form and lead five interagency work groups to further develop the franchise model in the five key strategy areas: human resources, financial resources, logistical support, information and governance. These small work groups will work through the month of June to develop specific suggestions regarding which types of services might be the most appropriate for development and implementation as franchise areas in the 2005-2007 biennium. They will also examine further the need for targeted investments and innovations complementary to but separate from the implementation of the franchise approach. The POG Team 11 will review the recommendations of the five work teams and through the Office of Financial Management will distribute further instructions to agencies for areas to examine in their budget development process.

The Team recognizes that this input will arrive at agencies a month later than other POG team recommendations. It is important, though, that the development of the

specific franchise areas and other innovations be targeted to those areas that have the best chance of success.

POG Team 11 also will examine more closely two reports that were produced in recent years but which have not necessarily received active follow up action. An interagency cabinet group produced a series of recommendations in the "Governing for the New Millennium" which would have consolidated and restructured a number of enterprise level activities. The support agencies – DIS, DOP, GA, OFM and PRT – developed a series of "Best Practices" that are posted on Access Washington that urged agencies to adopt changes in the way they do business in several key areas. An early distribution of these two documents to agencies, with the "heads up" that the POG Team 11 will be reviewing them and forwarding further proposals to the agencies, will give the agencies a chance to start assessing where they stand in comparison to the recommendations of the two documents.